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SUBJECT: A/S Sullivan and MCC Bent Visit on CAFTA Anniversary

Summary

1. Assistant Secretary of State for EEB Daniel Sullivan and Millennium Challenge Corporation Deputy CEO Rodney Bent visited El Salvador February 28 and March 1 to commemorate the one-year anniversary of CAFTA-DR's entry into force. In meetings with GOES officials, the private sector, and the media, both officials highlighted the role of CAFTA-DR in stimulating economic growth as part of a broader agenda of total economic engagement. A/S Sullivan and Ambassador Glazer discussed the GOES' refusal to allow U.S. table eggs into El Salvador with Vice President Ana Vilma de Escobar and other senior GOES officials. Other meetings brought attention to domestic bio-fuel production, El Salvador's potential as a regional transportation and logistics hub, and violent crime as a deterrent to economic growth. End summary.

CAFTA-DR at One Year

2. Ambassador Glazer and A/S Sullivan joined President Saca and other GOES officials at a formal ceremony marking CAFTA-DR's one year anniversary on March 1. In a speech extensively covered by national media, A/S Sullivan congratulated the Salvadorans for their remarkable progress since 1992 in reducing poverty and rebuilding a war-torn society. He recognized the role of the GOES in creating economic opportunity for its people through an aggressive reform agenda and taking a leading role in CAFTA-DR implementation. Highlighting U.S. - Salvadoran bilateral cooperation, he described CAFTA-DR as one part of our total economic engagement with El Salvador, which also includes programs run by the MCC, USAID, OPIC, TDA, and other USG agencies (see www.state.gov/e/eeb/ for the full text of the speech). President Saca reinforced many of these themes and clearly stated his objective to ensure that economic growth has a direct role in alleviating poverty.

3. A/S Sullivan visited Arroceria San Francisco, a Salvadoran food processor and distributor that has taken advantage of CAFTA-DR opportunities to expand its product line for export to the United States and add 200 new employees in the last year. The firm exports its own products and serves as a distributor for a number of smaller food processors that otherwise would find it difficult to reach U.S. markets. Arroceria San Francisco has already established a distribution center in the United States and plans to establish five more, creating more jobs in the United States. In press events and meetings with GOES and other officials, A/S Sullivan drew attention to the company as an example of how CAFTA-DR benefits both nations by directly employing more Salvadorans and more Americans as a result of increased trade.

4. Beginning with his first event with Minister of Agriculture Mario Salaverria, A/S Sullivan pressed the GOES to allow U.S. table

eggs and other poultry products into El Salvador. He also raised the same USG concerns with Vice President Ana Vilma de Escobar and Minister of Economy Yolanda de Gavidia the following day. He stressed that such trade irritants must be resolved so our two governments could focus attention on broader areas of interest and cooperation. Still claiming that it was a technical issue, Salaverria said he was willing to meet again with USDA and USTR officials to try to resolve the matter. The Ambassador has since raised this issue with Technical Secretary Eduardo Zablah, President Saca's chief of staff and principal economic advisor.

15. Conversations with Vice President de Escobar, Technical Secretary Eduardo Zablah, Minister of Economy de Gavidia, and other

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GOES officials also focused on El Salvador's potential to become a regional logistics and transportation hub for the region. The Vice President mentioned the development of seaport infrastructure and a road network to complement the country's large, modern airport. Minister de Gavidia, meanwhile, noted efforts to simplify government regulation in an effort to lower transportation costs.

Bio-fuels

16. During his visit, A/S Sullivan highlighted USG interest in El Salvador's fledgling bio-fuels industry in conversations with Vice President de Escobar, Minister of Agriculture Salaverria, and Minister of Economy de Gavidia. He also visited the La Cabana sugar mill and refinery, one of two bio-fuel plants in El Salvador, but the only one using Salvadoran inputs. The plant is currently producing about 70,000 liters of ethanol daily, and plans are to increase production to about 140,000 liters. The other bio-fuel facility de-hydrates Brazilian ethanol and exported \$134 million to the United States in 2006.

17. A/S Sullivan congratulated the Salvadorans for their initiative in developing bio-fuels, both to take advantage of CAFTA-DR trading

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opportunities and for domestic consumption. He underscored that diversifying types of fuels was critical for both U.S. and Salvadoran energy security. Minister de Gavidia noted that the country imported \$715 million in petroleum products in 2006, making bio-fuel development an important priority. Vice President de Escobar mentioned that the government is finalizing legislation on bio-fuels that would spur its use and provide incentives to increase production.

Total Economic Engagement

18. Throughout the visit, A/S Sullivan highlighted the importance of total economic engagement--that is, an effort to integrate USG trade, investment, and foreign assistance. With local businessmen in the northern farming town of Nueva Concepcion and a visit to a nearby papaya farm, A/S Sullivan and MCC Deputy CEO Bent emphasized the opportunities for economic growth created by CAFTA-DR, the assistance already provided by USAID to take advantage of those opportunities, and the assistance that will be provided by MCC over the next several years.

19. A papaya farm the delegation visited epitomized the total economic engagement approach. In early 2006, farm owner Manuel Quijada planted 2,700 papaya trees on 5 acres of land previously used for rice cultivation. USAID technical assistance focused on teaching Quijada how to grow papayas, including the installation of a drip irrigation system. IDB assistance has focused on marketing and sales. Currently, the papayas are sold locally, competing with Guatemalan imports. To date he has harvested about 30,000 pounds of fruit, earning about \$4,000, nearly three times more than he would earn growing rice. With additional technical assistance on post-harvest processing, Quijada is positioned to take advantage of the road network to be built by the MCC to expand his market, and in association with other papaya growers, eventually export under CAFTA-DR.

110. In a meeting with Vice President de Escobar and Minister of

Economy de Gavidia, A/S Sullivan raised the Alliance for Growth and Progress (AGP) proposal currently under discussion in Washington. The Vice President and Minister of Economy welcomed the idea of expanding upon and deepening the connections between the countries with free trade agreements and other like-minded countries in the hemisphere. Minister de Gavidia mentioned a recent APEC meeting in Colombia where similar issues were discussed, and both GOES officials said they would be interested to hear more about AGP. A/S Sullivan also raised with the Vice President and Minister de Gavidia the issue of crime and security and how increases in these troubling trends could undermine economic growth and poverty reduction efforts.

Comment

11. Much attention has been paid (and rightfully so) to the one-year anniversary of CAFTA-DR implementation in El Salvador. This visit to El Salvador of two high-ranking State Department and MCC officials brought added attention to the benefits of free trade agreements in creating jobs and business opportunities in both countries. In addition, the visit highlighted the fact that the U.S. commitment to El Salvador extends beyond trade agreements to total economic engagement for the benefit of both nations. Throughout the visit, however, Salvadoran interlocutors noted that unabated violent crime remains a significant obstacle to taking advantage of these opportunities for growth. End comment.

12. A/S Sullivan cleared this message.

Glazer